State Taxes – Are You in Compliance?

States are aggressively looking for taxpayers that are doing business in their state and not filing returns. Rather than wait until your company receives a state tax notice, we recommend that you proactively look at where your company may have state tax return filing requirements. Once a state has contacted you or determined you have nexus, the chances of negotiating a favorable outcome are greatly reduced. If a state has determined your company has nexus, the state has the right to request tax returns back to the date you began doing business in the state. This can be quite costly, not only in taxes, but also time spent resolving the matter.

For example, ABC Company has been selling products in State Z for 10 years and never filed sales tax returns. State Z determines ABC Company has nexus for sales tax purposes. State Z can request sales tax returns for the past 10 years (practically speaking most states will go back 6 to 8 years). Assume ABC Company had annual sales of $50,000 a year in State Z. ABC Company could owe $40,000 or more in sales tax, penalties and interest. This amount could have been reduced to less than half that amount had the company identified and addressed the matter proactively.

To reduce or prevent the risk of state tax underpayments, it is important to consider if your company is doing business in other states.

Start by asking yourself the following questions:

- **Do we have sales in other states?**
- **Do we have locations in other states?**
- **Do we have employees or representatives that are residents of other states or making sales calls in other states?**
- **Do we send employees or subcontractors to make repairs or perform installations in other states?**
- **Do we have inventory, equipment, or other assets in other states? If you are selling through Amazon's "Fulfillment by Amazon" program, you likely have nexus in multiple states because your inventory could be held in Amazon fulfillment centers across the country.**

If you answered yes to any of the above questions, your company should consider conducting a nexus study. A nexus study is a detailed review of sales and business activities by state to identify and quantify the risk of tax underpayment. Once nexus with a state is determined, a proactive plan can be put in place to reduce the risk of potential unreported liability.

For more information regarding state income or sales tax nexus, please contact Andrew J. Toth, CPA, Partner at Tronconi Segarra & Associates, LLP. Andrew can be reached at: 1-716-633-1373 or atoth@tsacpa.com